

# REVIEW OF THE TAX CUTS AND JOBS ACT

...and its impact on the Town, residents, and businesses

February 8, 2018

## Standard Filers - Lower Tax Rates and doubles the Standard Deduction (Standard Deduction reduces taxable income)

Tax brackets for single filers			
	2017		2018
10%	\$0-\$9,325	10%	\$0-\$9,525
15%	\$9,326-\$37,950	12%	\$9,526-\$38,700
25%	\$37,951-\$91,900	22%	\$38,701-\$82,500
28%	\$91,901-\$191,650	24%	\$82,501-\$157,500
33%	\$191,651-\$416,700	32%	\$157,501-\$200,000
35%	\$416,701-\$418,400	35%	\$200,001-\$500,000
39.6%	\$418,401 or more	37%	\$500,001 or more
Standard deduction:	\$6,350	Standard deduction:	\$12,000
Personal Exemption:	\$4,050	Personal Exemption:	Eliminated

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## Tax Cuts and Jobs Act (TCJA)

- Passed in December 2017 by Congress
- Rewrite of the current Federal Tax Code
- Last major rewrite was more than 30 years under Ronald Reagan Administration (Tax Reform Act of 1986)
- Joint Committee on Taxation (JCT) of both houses on Congress estimate \$1.5T tax cut over 10 years
- This is a Federal change, States are still adapting to this change and creating their own legislation since many states "piggyback" on the Federal system.

## Standard vs. Itemized Deductions under TCJA

- Standard Deductions almost doubled (reduces taxable income)**
  - single filers from \$6,350 to \$12,000
  - Joint filers from \$12,700 to \$24,000
- Loss of Personal Exemptions – was \$4,050 per person/dependent
- Child tax credit doubled – but is limited based on age and income
- State and Local Tax Itemized Deduction limit at Federal Level (SALT)**
  - Limit of \$10,000 for State Income, Sales, and Property Taxes paid
  - Filers in areas with higher incomes and higher tax rates used to itemize deductions since they could claim everything paid for their State and Local Taxes  
(higher property taxes = ok, will deduct all this on my taxes anyway which will reduce taxable income)
  - Now capped at \$10,000, will lose the deductibility of anything over \$10,000 and will be pushed to the Standard Deduction of \$24,000
  - Not a bad switch at the Federal level, most will benefit from this....except those in high tax States

## Joint Filers - Lower Tax Rates and doubles the Standard Deduction Also Eliminates the "Marriage Penalty" of paying higher taxes combining incomes rather than filings as two individuals

Tax brackets for married taxpayers filing jointly			
	2017		2018
10%	\$0-\$18,650	10%	\$0-\$19,050
15%	\$18,651-\$75,900	12%	\$19,051-\$77,400
25%	\$75,901-\$153,100	22%	\$77,401-\$165,000
28%	\$153,101-\$233,350	24%	\$165,001-\$315,000
33%	\$233,351-\$416,700	32%	\$315,001-\$400,000
35%	\$416,701-\$470,700	35%	\$400,001-\$600,000
39.6%	\$470,701 or more	37%	\$600,001 or more
Standard deduction:	\$12,700	Standard deduction:	\$24,000
Personal Exemption:	\$8,100	Personal Exemption:	Eliminated

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## Example: Single Filer, renter

Single Taxpayer	2017	2018 to 2025
Income - W2 earnings	\$90,000	\$90,000
Itemized/Standard Deductions	\$ 7,000	\$12,000
Personal Exemptions	\$ 4,050	\$ 0
Taxable Income	\$78,950	\$78,000
Marginal Tax Rate	25%	22%
Federal Tax	\$15,476	\$13,308
Federal Tax savings under TCJA		\$ 2,168

Assumptions for Itemized Deductions - 2017

- \$ 5,000 State and Local Income Tax
- \$ 2,000 Charitable Contributions
- \$ 7,000 Total Allowed Previously

Assumptions for Itemized Deductions - 2018 - 2025

- Taking new \$12,000 Standard Deduction which is in excess of \$7,000 itemized taken previously

## Example: Family of 4 with older children, good wage earners

Married Taxpayer	2017	2018 to 2025
Income - W2 earnings	\$180,000	\$180,000
Itemized Deductions*	\$ 32,000	\$ 30,000
Personal Exemptions	\$ 16,200	\$ 0
Taxable Income	\$131,800	\$150,000
Marginal Tax Rate	25%	22%
Child Tax Credit (\$500 per child)		(\$ 1,000)
Federal Tax	\$ 24,427	\$ 23,879
Federal Tax savings under TCJA		\$ 548

Assumptions for Itemized Deductions - 2017

- \$ 6,000 State and Local Income Tax
- \$ 6,000 Property Tax
- \$ 15,000 Mortgage Interest
- \$ 5,000 Charitable Contributions
- \$32,000 Total Allowed Previously

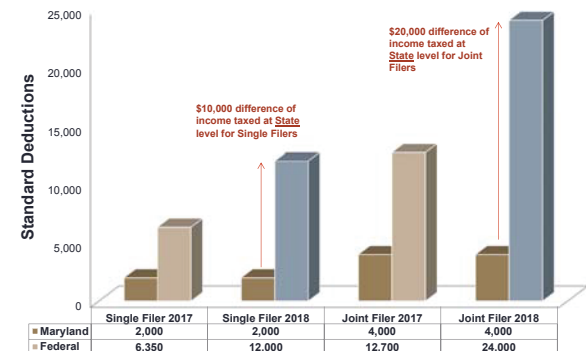
TCJA Assumptions for Itemized Deductions

- \$ 6,000 State and Local Income Tax
- \$ 6,000 Property Tax
- \$10,000 SALT Limit, \$2,000 deduction lost
- \$15,000 Mortgage Interest
- \$ 5,000 Charitable Contributions
- \$30,000 Total Itemized Allowed under TCJA

## How this impacts Maryland filers

- Standard Deduction for Maryland Taxpayers is capped at \$2,000 for single taxpayers, \$4,000 for Joint Taxpayers
- New Federal Standard Deduction is \$12,000 for single taxpayers and \$24,000 for Joint Taxpayers
- Comptroller's Office estimates that 72% of MD Taxpayers will pay less in Federal tax amounting to net of \$3.54B for tax year 2018 due to taking higher Standard Deduction
- Since Maryland Standard Deduction much less than Federal Standard Deduction, Marylanders will be taxed on this greater "spread"

## New TCJA Standard Deductions impact on Maryland Filers



## Impact on the State/Local Coffers

- Comptroller's Office estimates Maryland will generate **\$659M additional revenue** for 2019
  - Reason - filers taking the more generous Federal Standard Deduction
  - \$10,000 cap of State and Local Income Taxes will shift filers to Federal Standard Deduction but to less generous Maryland Standard Deduction
- Comptroller's Office estimates that 700K MD taxpayers will be impacted by loss of State and Local cap of taxes paid on income and property
  - (represents one quarter of 2.8M MD filers with loss of \$6.2B of deductions over SALT)
- subject Marylanders to more income taxed at State level that was exempted at Federal level

Where does this additional revenue for MD go?

- \$416M for State Income Tax Revenue
- \$243M for Local Income Tax Revenue (Counties and Municipalities)

## Impact on Businesses

99.9% of all businesses are small businesses (>500 employees) <sup>(1)</sup>

- 19% of all small businesses are C-Corporations <sup>(1)</sup>
- Tax Cut and Jobs Act Slashes Corporate Tax Rates
  - Reduced corporate tax rates from a high of 35% to a flat tax of 21%**
- Corporate Alternative Minimum Tax repealed (AMT)
- Loss of deductions for entertainment, recreation, amusements, and membership dues to social clubs for business or pleasure (Skybox at FedEx Field, Country Club, etc)
- Pass through Businesses (Sole Proprietors, Partnerships and S-Corps)
  - 73% of small businesses are classified as "Pass through businesses"
  - Pass through means the entity does not pay tax on the earnings like a C-Corp but is the earnings for tax purposes are "passed through" and taxed on the individual tax returns of the owners, partners, or shareholders of the
  - Tax Break for Pass Through businesses – **up to 20% deduction on qualified business income** <sup>(2)</sup>

<sup>(1)</sup>Source: US Small Business Administration  
<sup>(2)</sup>Subject to limitations

## Looking Ahead for TCJA – Federal level

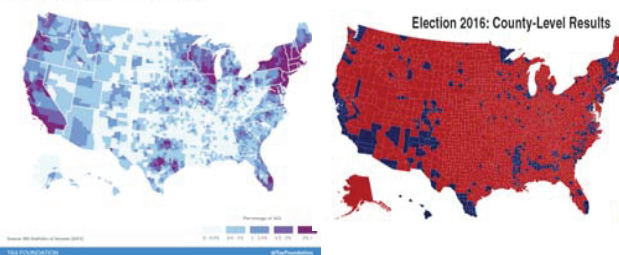
Individual Tax Cuts expire 12/31/25 unless renewed, corporate tax cuts permanent

Impact on Individual Income tax returns if TCJA sunsets:

- Individual income tax returns filed in 2026 for 2025 will still be under the Tax Cuts and Jobs Act provisions
- Individual income tax returns filed in 2027 for year 2026, will revert back to what they are today
- Common Argument – taxes will increase dramatically in 2027
  - If nothing happens by 2025, we revert back to current 2017 tax structure
  - Problem - nothing is indexed to inflation so individuals would be filing 2026 taxes with old 2017 levels of deductions and credits
- Solution – Congress has 8 years to extend or modify current Act

## U.S. County Tax Rates vs. Election Results

Property Tax Deduction as a Percentage of AGI



Counties with high percentage of Property Tax deduction as a percentage of their Federal Adjusted Gross Income are those that will be most impacted by the \$10,000 cap on State and Local Income Taxes (SALT Deduction)

## Example: Family of 4 with older children, Business Owners

Family Business Taxpayer – Federal Filing	2017	2018 to 2015
Income – Business Income from LLC	\$180,000	\$180,000
Pass thru Deduction (20% for Qualified Business Income)	none	<b>(\$ 36,000)</b>
Itemized Deductions*	\$ 32,000	\$ 30,000
Personal Exemptions	\$ 16,200	\$ 0
Taxable Income	\$131,800	\$ 114,000
Marginal Tax Rate	25%	22%
Child Tax Credit (\$500 per child)		(\$ 1,000)
Tax	\$ 24,427	\$ 15,979
Tax Savings under new TCJA		<b>\$ 8,468</b>

Assumptions for Itemized Deductions - 2017

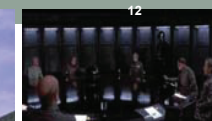
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## Looking Ahead for Maryland for TCJA

- Is it a good thing or bad thing for Maryland?
- State Legislature has until April 9, 2018 to enact legislation to give additional tax revenues back to taxpayers
- If do nothing, State and localities would see additional revenues which would be used to balance budget or for infrastructure, education, or other services
- Will be pressure on legislators to reduce taxes since most Marylanders will see an increase in State Income taxes
- As Taxpayers we will have to prepare our returns two different ways to maximize tax savings
  - maximizing the Federal Deduction to save more in Federal Tax but pay more Maryland Tax, or
  - maximize their Maryland deductions to pay less in Maryland Tax but then lose the Federal tax savings



Myth – Businesses are evil and do not deserve tax breaks!



Tinelli Asset Management, Inc.



## Impact of Business Tax Reductions for Town of Bladensburg as a result of Tax Cuts and Jobs Act

- Reduction in tax rates for C-Corps, and 20% deduction against earnings for pass through businesses
- Almost 180 licensed business in Town, this will affect just about all
- Free up investment to put back into business, create more jobs, expansion of building, plant, or inventory
- Business Personal Property Tax contributes 11% to the Town's Revenues
  - as compared to 8% of State Income Tax contribution to budget

- "It is always a lot of fun when you win...." -DJT 12/20/17 on White House lawn celebrating passage of TCJA bill